

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Basic Financial Statements
and
Independent Auditors' Report**

**For the Year Ended
June 30, 2005**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
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Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

Independent Auditors' Report

To the Governing Board
Redevelopment Agency of the County of San Bernardino

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino (the Agency), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2005, which collectively comprises the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's "Minimum Requirements for California Redevelopment Agencies." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing Redevelopment Agencies.

The Agency has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the financial statements.

As described in Note 3 to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, as of June 30, 2005. This results in a change to the Agency's disclosures to its basic financial statements regarding the Agency's deposits and investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005 on our consideration of Redevelopment Agency of the County of San Bernardino's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information, as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lowell & Spafford, LLP

September 22, 2005

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Statement of Net Assets

June 30, 2005

Assets

Cash in County Treasury	\$ 18,232,254
Due from other governments	
County of San Bernardino	
Interest	130,934
Property taxes	168,658
Other	276,733
City of Victorville - property taxes	141,136
City of Montclair - property taxes	6,071
Restricted	
Investments - held with fiscal agent	1,612,262
Bond issuance costs, net of amortization of \$111,895	559,462
Accumulated redevelopment costs	
Land held for redevelopment	<u>141,350</u>
Total assets	<u>21,268,860</u>

Liabilities

Accounts payable	373,312
Accrued payroll and benefits	22,606
Due to County of San Bernardino	
Transportation/Flood Control District	128,281
Accrued interest on notes payable	16,863
Due to taxpayer - refundable taxes	1,731,295
Liabilities payable from restricted assets	
Accrued interest on bonds payable	427,090
Non-current liabilities	
Due within one year	337,853
Due within more than one year	<u>19,290,000</u>
Total liabilities	<u>22,327,300</u>

Net Assets

Restricted	
Debt Service	1,994,916
Low moderate housing	746,345
Unrestricted (deficit)	<u>(3,799,701)</u>
Total net assets	<u>\$ (1,058,440)</u>

The accompanying notes are an integral part of these financial statements.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Statement of Activities

For the Year Ended June 30, 2005

	<u>Expenses</u>	<u>Changes in Net Assets</u>
Functions/Programs		
Salaries, wages and benefits	\$ (639,788)	
Materials, supplies and other services	(104,485)	
San Sevaine project expenses	(1,326,025)	
Other redevelopment projects expenses	(1,143,200)	
AB 1290 pass-through to other agencies	(1,615,908)	
Interest, fiscal charges and amortization of bond issuance costs	<u>(1,467,110)</u>	<u>\$ (6,296,516)</u>
Total governmental activities		<u>(6,296,516)</u>
General revenues		
Property taxes		4,962,348
Investment income		<u>464,872</u>
Total general revenues		<u>5,427,220</u>
Change in net assets		<u>(869,296)</u>
Net assets (deficit), beginning of year		<u>(189,144)</u>
Net assets (deficit), end of year		<u><u>\$ (1,058,440)</u></u>

The accompanying notes are an integral part of these financial statements.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Balance Sheet
Governmental Funds**

June 30, 2005

	Major Funds			
	Special Revenue		Capital Projects	Debt Service
	San Sevaine Project	Low - Mod Housing	RDA Capital Projects	2000 Series A Bond
Assets				
Cash and investments				
County of San Bernardino	\$ 7,515,568	\$ 4,766,219	\$ 4,262,508	\$ (4,894)
Held with fiscal agent				1,612,262
Due from Other Governments				
County of San Bernardino				
Interest	45,159	26,398	27,333	19,622
Property taxes				168,658
Other				251,076
City of Victorville - property taxes				
City of Montclair - property taxes				
Due from other funds	336,306	211,063	-	1,362,183
Total assets	<u>\$ 7,897,033</u>	<u>\$ 5,003,680</u>	<u>\$ 4,289,841</u>	<u>\$ 3,408,907</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 325,000	\$ -
Accrued payroll and benefits	22,606			
Due to other funds	1,195,547	396,542	-	242,158
Due to County of San Bernardino				
Transportation/Flood Control District			128,281	
Due to taxpayer - refundable taxes	-	-	-	1,731,295
Total liabilities	<u>1,218,153</u>	<u>396,542</u>	<u>453,281</u>	<u>1,973,453</u>
Fund Balances				
Reserved:				
Debt service				1,435,454
Low and moderate housing		4,607,138		
Unreserved, reported in:				
Special revenue funds	6,678,880			
Capital projects funds - designated	-	-	3,836,560	-
Total fund balances	<u>6,678,880</u>	<u>4,607,138</u>	<u>3,836,560</u>	<u>1,435,454</u>
Total liabilities and fund balances	<u>\$ 7,897,033</u>	<u>\$ 5,003,680</u>	<u>\$ 4,289,841</u>	<u>\$ 3,408,907</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Accumulated redevelopment costs are capitalized costs that will be transferred to the County or developers upon project completion. These costs are not spendable current financial resources and, therefore are not reported in the funds.

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Bond issuance costs are recorded when the debt is first issued and accrued interest is not payable until due, therefore they are not included in the funds.

Net assets of governmental activities

Other Funds	Total Governmental Funds
\$ 1,692,853	\$ 18,232,254
	1,612,262
12,422	130,934
	168,658
25,657	276,733
141,136	141,136
6,071	6,071
48,591	1,958,143
<u>\$ 1,926,730</u>	<u>\$ 22,526,191</u>

\$ 48,312	\$ 373,312
	22,606
123,896	1,958,143
	128,281
<u>-</u>	<u>1,731,295</u>
<u>172,208</u>	<u>4,213,637</u>

	1,435,454
350,854	4,957,992
1,145,942	7,824,822
257,726	4,094,286
<u>1,754,522</u>	<u>18,312,554</u>
<u>\$ 1,926,730</u>	

141,350
(19,627,853)

115,509
\$ (1,058,440)

The accompanying notes are an integral part of these financial statements.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds**

For The Year Ended June 30, 2005

	Major Funds			
	Special Revenue		Capital Projects	Debt Service
	San Seivaine Project	Low - Mod Housing	RDA Capital Projects	2000 Series A Bond
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 4,571,960
Investment income	158,287	94,061	111,425	73,691
Total revenues	158,287	94,061	111,425	4,645,651
Expenditures				
Current:				
General government	721,420			
Project expenditures	1,326,025	29,449		
AB 1290 pass-through				1,390,309
Debt service				
Principal				300,000
Interest and fiscal charges	58,949			1,362,829
Capital outlay - project expenditures	-	141,350	858,043	-
Total expenditures	2,106,394	170,799	858,043	3,053,138
Excess (deficiency) of revenues over (under) expenditures	(1,948,107)	(76,738)	(746,618)	1,592,513
Other financing sources (uses)				
Proceeds from long-term debt				
Operating transfers in	3,759,823	941,467	600,000	1,362,183
Operating transfers out	(1,762,526)	(400,207)	-	(4,284,871)
Total other financing sources (uses)	1,997,297	541,260	600,000	(2,922,688)
Net change in fund balances	49,190	464,522	(146,618)	(1,330,175)
Fund balances				
Balances, beginning of year	6,629,690	4,142,616	3,983,178	2,765,629
Balances, end of year	\$ 6,678,880	\$ 4,607,138	\$ 3,836,560	\$ 1,435,454

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is either allocated over their estimated useful lives and reported as depreciation expense or accumulated as redevelopment project costs and transferred to the County or developers upon completion.

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Change in net assets of governmental activities

Other Funds	Total Governmental Funds
\$ 390,388	\$ 4,962,348
<u>27,408</u>	<u>464,872</u>
<u>417,796</u>	<u>5,427,220</u>

	721,420
255,708	1,611,182
225,599	1,615,908

	300,000
	1,421,778
<u>-</u>	<u>999,393</u>
<u>481,307</u>	<u>6,669,681</u>

<u>(63,511)</u>	<u>(1,242,461)</u>
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940,000	940,000
-	6,663,473
<u>(215,869)</u>	<u>(6,663,473)</u>
<u>724,131</u>	<u>940,000</u>

660,620	(302,461)
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<u>1,093,902</u>	<u>18,615,015</u>
<u>\$ 1,754,522</u>	<u>\$ 18,312,554</u>

\$ (302,461)

141,350

(45,806)

<u>(662,379)</u>
<u>\$ (869,296)</u>

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN BERNARDINO

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Reporting Entity

The Redevelopment Agency of the County of San Bernardino (the Agency) was established in 1980 under the California State Redevelopment Law. In June 1995, the Agency adopted Resolution #95-1 receiving the San Sevaine Redevelopment Project preliminary plan. The plan is for the area surrounding the former Kaiser Steel Mill in the unincorporated areas west of the City of Fontana. The Agency proposes to eliminate and prevent the spread of blight and blighting influences and to strengthen the economic base of the project area and the community. The start-up costs were covered by advances from The California Speedway, Inc. and the County of San Bernardino Flood Control District and were reimbursed from project funds. In December 1995, Ordinance #3631 was passed adopting the San Sevaine Redevelopment Project. During 1997, the speedway portion of the San Sevaine Redevelopment Project was completed. Two businesses in the San Sevaine Redevelopment area generate approximately 57% of all tax increment revenue received.

In May 2000, the Agency adopted a resolution accepting assignment of Victor Valley Economic Development Authority (VVEDA) tax increment revenue. VVEDA is a regional agency responsible for the reuse of George Air Force Base and is comprised of the cities of Victorville, Hesperia, Adelanto, Town of Apple Valley and San Bernardino County.

In June 2003, the Agency adopted rules and guidelines for the redevelopment plan for the Mission Boulevard Joint Redevelopment Project with the City of Montclair. Mission Boulevard is in its early stages of development and minimal Agency funds have been committed for this project as of June 30, 2005. Project adoption is schedule for November 2005.

In November 2004, the County adopted Ordinance No. 3942 establishing the Cedar Glen Disaster Recovery Redevelopment Area. The project is in its early stages with no major activities as of June 30, 2005.

In September 2004, the Agency accepted a loan from the San Bernardino County General Fund to fund operating costs for the creation of the proposed Bloomington and Cajon Redevelopment Project Areas.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Redevelopment Agencies. The Agency accounts for its financial transactions in accordance with policies and procedures of the State Controller's Office, Division of Accounting and Reporting for California Redevelopment Agencies.

Accounting principles generally accepted in the United States of America require that these financial statements present the accounts of the Agency and any of its component units. Component units are legally separate entities for which the Agency is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Agency's operations, so the accounts of these entities are to be combined with the data of the Agency. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN BERNARDINO

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

The Agency has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements. However, the Agency is a component unit of the County of San Bernardino.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Agency currently has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expense are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The Agency considers all revenues available if they are collected within 60 days after year-end. Property taxes and investment income are susceptible to accrual. Expenditures are recorded when a liability is incurred, as under accrual accounting.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Agency reports the following major governmental funds:

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Agency has two major special revenue funds, the San Sevaine Project and the Low and Moderate Income Housing funds.

Capital Projects Fund - The capital projects funds are used to account for financial resources designated for the acquisition or construction of major capital facilities. The Agency has one major capital projects fund, the RDA Capital Project Fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and for the payment of principal and interest on bonds outstanding.

Additionally, the Agency reports the following Other Funds:

Special Revenue Fund - The Agency has four non-major special revenue funds for VVEDA George Air Force Base reuse tax increment revenue and its related Low and Moderate Income Housing fund, the Mission Boulevard Joint Redevelopment Project in Montclair, Cedar Glen Disaster Recovery Redevelopment Area, Bloomington Redevelopment Project Area and the Cajon Redevelopment Project Area.

Capital Projects - The Agency has one non-major capital projects fund for the RDA Housing Project.

When both restricted and unrestricted resources are available for use, it is the agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

By state law, the Agency's Governing Board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 30. A public hearing must be conducted to receive comments prior to adoption. The Agency's Governing Board satisfied these requirements. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental fund types.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders or contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will lapse and be re-appropriated and honored during the subsequent year.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Cash and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Agency maintains substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares, is readily convertible to cash, available for immediate withdrawal, and is therefore, considered a cash equivalent for financial statement reporting purposes. In addition, the state authorizes the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the state treasurer's investment pool. Investments of the Agency are reported at fair value based on quoted market prices.

Capital Assets and Accumulated Redevelopment Project Costs

Capital Assets

Capital assets, which include land, are reported in the government-wide financial statements. The Organization defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Agency has no capital assets, as defined, as of June 30, 2005.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Accumulated Redevelopment Project Costs

Accumulated redevelopment project costs consist of costs associated with land acquisition and/or construction in progress for redevelopment projects that will be transferred to the County or a developer (i.e. title and ownership of the assets will be transferred). Since these assets will not be used in the Agency's operations, the accumulated redevelopment project costs are not considered capital assets of the Agency.

Interfund Transfers and Balances

Interfund transfers occur because the Agency receives all property tax revenues through the debt service fund and transfers these funds to other funds as expenditures are incurred or due to contractual requirements. Also, administrative costs incurred by the San Sevaire Project are allocated to the other funds through transfers. Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Restricted Assets

Certain proceeds of the Agency are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "debt service fund" includes the "Bond Trustee" account used to set aside resources to make up potential future deficiencies in the debt service fund.

Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs, are deferred and amortized over the terms of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. Bond proceeds are reported as other financing sources in capital projects funds. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received are reported as debt service expenditures.

Property Taxes

Property taxes are assessed under various legislative provisions, contained in the Government Code and the Revenue and Taxation Code, by the County Assessor. Taxes on real property are limited to one percent of assessed valuation plus additional taxes for repayment of any existing voted indebtedness. The Agency receives a portion of the property tax income based on a formula prescribed in Section 26912(b) of the Government Code and Sections 95-100 of the California Revenue and Taxation Code and as amended by the passage of AB 454.

Secured property taxes are levied on or before the first business day of September of each year. They become a lien on real property on January 1st preceding the fiscal year for which taxes are levied and can be paid in two installments. The first installment is November 1st and delinquent December 10th, and the second installment is due February 1st of the following year and is delinquent April 10th. The Agency has entered into an agreement with the County of San Bernardino and the City of Victorville to receive its apportioned property taxes throughout the fiscal year.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of a fund balance not available for expenditures or amounts legally segregated for a specific future use. Reserved for debt service represents amounts held by the fiscal agent for principle and interest payments on the 2000 Bonds. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. The Agency's capital project funds are designated fund balances for specific purposes.

2. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Accumulated redevelopment costs – land held for redevelopment	\$ <u>141,350</u>
Bonds payable	\$(18,665,000)
Notes payable	(940,000)
Compensated absences	<u>(22,853)</u>
	\$ <u>(19,627,853)</u>
Bond issuance costs, net of amortization of \$111,895	\$ 559,462
Accrued interest on bonds payable	(427,090)
Accrued interest on notes payable	<u>(16,863)</u>
	\$ <u>115,509</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Accumulated redevelopment costs – land held for redevelopment	\$ <u>141,350</u>
Change in accrued interest on bonds	\$ (6,090)
Change in accrued interest on notes payable	(16,863)
Change in compensated absences	<u>(22,853)</u>
	\$ <u>(45,806)</u>
Notes payable proceeds	\$(940,000)
Payment on bonds payable	300,000
Amortization of bond issuance costs	<u>(22,379)</u>
	\$ <u>(662,379)</u>

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

3. Cash and Investments

Cash in County Treasurer is considered an investment in an external investment pool. The carrying value and market value as of June 30, 2005 for the Agency was \$18,278,931 and \$18,232,054, respectively.

Deposits and investments at June 30, 2005:

External Investment Pool – Cash in San Bernardino County Treasury	\$ 18,232,054
Cash on hand	<u>200</u>
	18,232,254
Investments held with fiscal agent – Bank of New York Western Trust Company:	
Money market funds invested in U.S. Treasuries	<u>1,612,262</u>
 Total Fair Value of cash and investments	 \$ <u>19,891,393</u>

Credit Risk – Investments

The County Treasurer's investments consist of 65.9% federal agencies, 19.1% of commercial paper, 6.4% of certificates of deposit, 3.9% of U.S. treasuries, 3.5% of repurchase agreements, .4% of municipal debt and .8% of money market funds. As of June 30, 2005, the Agency's investments in the County investment pool were rated AAA, A-1+ and A-1 by Fitch IBCA, Moody, and Standards & Poor. The Agency's investments in U.S. treasuries money market funds through Bank of New York Western Trust Company were generally, rated AAA by Standards & Poor.

4. Accumulated Redevelopment Costs

The following is a summary of the changes in Accumulated Redevelopment costs during the year:

	Balance <u>7-1-04</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>6-30-05</u>
Land held for redevelopment	\$ <u> </u> -	\$ <u>141,350</u>	\$ <u> </u> -	\$ <u>141,350</u>

5. Transactions with the County of San Bernardino

The Agency has entered into several agreements with the County of San Bernardino to provide for virtually all services to the Agency, including personnel and administrative services, cash flow management, risk management and project costs. Payment for these services is reflected in the combined statement of revenues, expenditures and changes in fund balance as salaries and benefits and services and supplies.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

5. Transactions with County of San Bernardino (Continued)

California Redevelopment Law requires that the County advance funds to the Agency so it can finance its administrative obligations on an annual basis. On September 30, 1997, the Agency entered into a Financing Agreement with the County of San Bernardino. The Agreement provides for an annual loan to bear interest at 1% above the County's pooled investment rate, which will be repaid by June 30th of each year with tax increment revenue. For the year ended June 30, 2005, the Agency received and repaid \$1,860,000 plus interest of \$58,949, which is included in the San Sevaine project on the statement of activities.

6. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
San Sevaine Project	2000 Series A Bond Fund	\$ 261,306
	Nonmajor special revenue funds	75,000
Low-Mod Income Housing	San Sevaine Project	162,631
	2000 Series A Bond Fund	48,432
2000 Series A Bond Fund	San Sevaine Project	1,015,924
	Low-Mod Income Housing	346,259
Nonmajor special revenue funds	San Sevaine Project	<u>48,591</u>
		<u>\$1,958,143</u>

The San Sevaine Project fund has an advance/loan to the Cedar Glen Disaster Recovery Redevelopment Area, a nonmajor special revenue fund for \$75,000. Accrued interest on this advance/loan amounted to \$2,865 at June 30, 2005. The advance is not expected to be repaid within the next year.

Interfund transfers:

	<u>Transfer In:</u>			
	<u>San Sevaine Project</u>	<u>Low-Mod Housing</u>	<u>RDA Capital Projects</u>	<u>Total Amount</u>
Transfer Out:				
2000 Series A Bond	\$2,482,515	\$440,173		\$2,922,688
San Sevaine Project		101,087	\$600,000	701,087
Nonmajor Governmental Funds	<u>215,869</u>	<u>-</u>	<u>-</u>	<u>215,869</u>
Total transfers in	<u>\$2,698,384</u>	<u>\$541,260</u>	<u>\$600,000</u>	<u>\$3,839,644</u>

Transfer from San Sevaine and Low and Moderate Housing funds to the 2000 Series A Bond fund is a one-time transfer to reimburse for refundable property taxes due to a taxpayer at June 30, 2005.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

7. Non-Current Liabilities

Bonds Payable

The Agency issued tax allocation bonds, 2000 series A (the 2000 Bonds) in the amount of \$19,770,000 to provide funds for the acquisition and construction of various undertakings in the San Sevaire Redevelopment Project pursuant to the Redevelopment Plan, including an 80 unit senior housing facility. The 2000 Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues. Bond interest is payable semi-annually on each March 1 and September 1, commencing on September 1, 2000. The 2000 Bonds have stated interest rates ranging from 5.3% to 7.10% over the life of the Bonds. The 2000 Bonds maturing on or before September 1, 2009 are not subject to optional redemption prior to maturity. The 2000 Bonds maturing after September 10, 2010 are subject to redemption, at the option of the Agency.

Bonds maturing on or after September 1, 2018 are also subject to mandatory sinking fund payments pursuant to the Indenture at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium on dates specified in the Indenture through 2029.

The requirements to amortize bonds payable subsequent to June 30, 2005 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 315,000	\$ 1,272,135	\$ 1,587,135
2007	335,000	1,253,116	1,588,116
2008	355,000	1,232,585	1,587,585
2009	375,000	1,210,498	1,585,498
2010	395,000	1,186,815	1,581,815
2011-2015	2,395,000	5,507,078	7,902,078
2016-2020	3,320,000	4,549,868	7,869,868
2021-2025	4,645,000	3,175,475	7,820,475
2026-2030	<u>6,530,000</u>	<u>1,221,910</u>	<u>7,751,910</u>
Total	<u>\$18,665,000</u>	<u>\$20,609,480</u>	<u>\$39,274,480</u>

Notes Payable – County of San Bernardino

The Agency entered into loan agreements with the County of San Bernardino for \$940,000. The loans bear interest at 1% over the County investment pool rate and are to be repaid over ten years. The loans will be paid utilizing tax increment revenue from the specific project area as it becomes available. If the project areas are not created and a redevelopment plan is not adopted, the County will forgive the loan balance amounts spent and any accrued interest thereon for that project area. The loans were made available for the project areas on the following page:

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

7. Non-Current Liabilities (Continued)

Cedar Glen Disaster Recovery Redevelopment Area operating costs for \$290,000; Bloomington Redevelopment Project Area start-up costs for \$300,000; Cajon Redevelopment Project Area start-up costs for \$300,000; and Mission Boulevard Joint Redevelopment Project for \$50,000 for additional administrative costs.

Subsequent to June 30, 2005, the Agency received additional loans for Bloomington and Cajon for \$200,000 each under the same terms and conditions as described above.

A schedule of changes in the non-current liabilities for the year ended June 30, 2005 is shown below:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Change</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences		\$ 22,853	\$ 22,853	\$ 22,853
Bonds payable	\$18,965,000	(300,000)	18,665,000	315,000
Notes payable	<u>-</u>	<u>940,000</u>	<u>940,000</u>	<u>-</u>
	<u>\$18,965,000</u>	<u>\$ 662,853</u>	<u>\$19,627,853</u>	<u>\$337,853</u>

Interest charged to expense in the statement of activities was \$1,371,722 for the year ended June 30, 2005.

8. Retirement Plan

The Agency's employee's are employee's of the County of San Bernardino and therefore are also participant's in the San Bernardino County Employee's Retirement Association (SBCERA) cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. The SBCERA is controlled by its own board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income.

SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, 3rd Floor, San Bernardino, California 92415-0014.

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7% of an employee's covered salary, as determined pursuant to Section 31453 of the 1937 Act. Specific information related to the employee's of the Agency is not available.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Financial Statements

9. Pass-through Agreements and Other Payments

Pass-through Agreements

The Agency is required in accordance with Health Code Section 33607.5 (AB 1290) to pass-through applicable portions of property tax revenues received by the project areas attributable to these entities to the extent that the territorial limits reside within the Agency's project areas. Entities are primarily school districts and special districts in the San Sevaine project area and the former George Air Force Base project area.

ERAF Payment

On August 5, 2004, SB 1096 was signed into law requiring redevelopment agencies statewide to shift for two years (2004-2006) the amount of \$250 million of property tax increment revenues to the State's Education Revenue Augmentation Fund (ERAF) as a way to reduce the state's 2004-2006 budget deficits. The Agency paid \$475,917 during the year ended June 30, 2005 for ERAF.

10. Commitments and Contingencies

The Agency reached a stipulated agreement with California Steel Industries, Inc. relating to an appeal with the County Board of Assessment Appeals, reducing assessed values for specified parcels for the years 1999-2000 through 2003-2004 on July 6, 2005. As a result, of this agreement, the Agency has recorded a liability of \$1,731,295 for refundable property taxes. The allocation of this amount between the various funds of the Agency includes San Sevaine Special Revenue Fund for \$1,015,924, Low and Moderate Housing Fund for \$346,259 and AB1290 pass-through for \$369,112.

The Agency is potentially subject to various claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with any certainty, it is reasonably possible that any pending legal actions could be decided unfavorably against the Agency. The Agency's management believes that any liability that might result from such litigation would not have a material effect on the basic financial statements as of June 30, 2005.

SUPPLEMENTARY INFORMATION

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual**

Governmental Funds

For The Year Ended June 30, 2005

	Special Revenue							
	San Sevaime Project				Low-and Moderate- Income Housing Fund			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance - Favorable (Unfavorable)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance - Favorable (Unfavorable)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	78,000	78,000	158,287	80,287	75,200	75,200	94,061	18,861
Total revenues	<u>78,000</u>	<u>78,000</u>	<u>158,287</u>	<u>80,287</u>	<u>75,200</u>	<u>75,200</u>	<u>94,061</u>	<u>18,861</u>
Expenditures								
Current:								
General government	613,109	613,109	721,420	(108,311)				
Project expenditures	6,271,617	7,765,173	1,326,025	6,439,148	4,620,123	4,768,967	29,449	4,739,518
AB 1290 pass-through								
Debt service								
Principal								
Interest and fiscal charges	48,000	48,000	58,949	(10,949)				
Capital outlay	-	-	-	-	-	-	141,350	(141,350)
Total expenditures	<u>6,932,726</u>	<u>8,426,282</u>	<u>2,106,394</u>	<u>6,319,888</u>	<u>4,620,123</u>	<u>4,768,967</u>	<u>170,799</u>	<u>4,598,168</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,854,726)</u>	<u>(8,348,282)</u>	<u>(1,948,107)</u>	<u>6,400,175</u>	<u>(4,544,923)</u>	<u>(4,693,767)</u>	<u>(76,738)</u>	<u>4,617,029</u>
Other financing sources								
Operating transfers in			3,759,823	3,759,823			941,467	941,467
Operating transfers out	1,701,766	1,701,766	(1,762,526)	(3,464,292)	557,700	802,400	(400,207)	(1,202,607)
Total other financing sources	<u>1,701,766</u>	<u>1,701,766</u>	<u>1,997,297</u>	<u>295,531</u>	<u>557,700</u>	<u>802,400</u>	<u>541,260</u>	<u>(261,140)</u>
Net change in fund balances	<u>(5,152,960)</u>	<u>(6,646,516)</u>	<u>49,190</u>	<u>\$ 6,695,706</u>	<u>(3,987,223)</u>	<u>(3,891,367)</u>	<u>464,522</u>	<u>\$ 4,355,889</u>
Fund balances								
Balances, beginning of year	5,152,960	6,646,516	6,629,690		3,987,223	3,891,367	4,142,616	
Balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,678,880</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,607,138</u>	

Capital Projects				Debt Service			
RDA Capital Projects				2000 Series A Bond			
Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance - Favorable (Unfavorable)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance - Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ 4,266,000	\$ 4,266,000	\$ 4,571,960	\$ 305,960
74,000	74,000	111,425	37,425	15,000	15,000	73,691	58,691
74,000	74,000	111,425	37,425	4,281,000	4,281,000	4,645,651	364,651
				955,635	955,635	1,390,309	(434,674)
				300,000	300,000	300,000	-
				1,289,820	1,289,820	1,362,829	(73,009)
3,821,033	3,821,033	858,043	2,962,990	-	-	-	-
3,821,033	3,821,033	858,043	2,962,990	2,545,455	2,545,455	3,053,138	(507,683)
(3,747,033)	(3,747,033)	(746,618)	3,000,415	1,735,545	1,735,545	1,592,513	(143,032)
(528,157)	(287,237)	600,000	600,000	(2,684,730)	(4,492,770)	1,362,183	1,362,183
(528,157)	(287,237)	-	287,237	(2,684,730)	(4,492,770)	(4,284,871)	207,899
(528,157)	(287,237)	600,000	887,237	(2,684,730)	(4,492,770)	(2,922,688)	1,570,082
(4,275,190)	(4,034,270)	(146,618)	\$ 3,887,652	(949,185)	(2,757,225)	(1,330,175)	\$ 1,427,050
4,275,190	4,034,270	3,983,178		949,185	2,757,225	2,765,629	
\$ -	\$ -	\$ 3,836,560		\$ -	\$ -	\$ 1,435,454	

The accompanying notes are an integral part of these financial statements.

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2005

	Special Revenue			
	Victor Valley Economic Development Authority		Mission Boulevard Joint Redevelopment Project	Cedar Glen Project
	Low - Mod Housing	General VVEDA	Low - Mod Housing	General
Assets				
Cash and cash equivalents				
County of San Bernardino	\$ 290,227	\$ 531,082	\$ 37,490	\$ 215,774
Due from County of San Bernardino				
Interest	1,894	3,518	299	1,848
Other		25,657		
Due from City of Victorville				
Property taxes	56,761	84,375		
Due from City of Montclair				
Property taxes			6,071	
Due from other funds	-	35,918	1,243	5,183
Total assets	<u>\$ 348,882</u>	<u>\$ 680,550</u>	<u>\$ 45,103</u>	<u>\$ 222,805</u>
Liabilities and Fund Balances				
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	<u>43,131</u>	<u>-</u>	<u>-</u>	<u>80,765</u>
Total Liabilities	<u>43,131</u>	<u>-</u>	<u>-</u>	<u>80,765</u>
<u>Fund balances</u>				
Reserved for low moderate housing	\$ 305,751		45,103	
Unreserved, reported in:				
Special revenue funds		680,550		142,040
Capital projects fund - designated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>305,751</u>	<u>680,550</u>	<u>45,103</u>	<u>142,040</u>
Total liabilities and fund balances	<u>\$ 348,882</u>	<u>\$ 680,550</u>	<u>\$ 45,103</u>	<u>\$ 222,805</u>

		<u>Capital Projects</u>		
<u>Bloomington Project</u>	<u>Cajon Project</u>		<u>Total Nonmajor Governmental Funds</u>	
<u>General</u>	<u>General</u>	<u>RDA Housing</u>		
\$ 168,327	\$ 193,842	\$ 256,111	\$	1,692,853
1,590	1,658	1,615		12,422
				25,657
				141,136
				6,071
<u>3,436</u>	<u>2,811</u>	<u>-</u>	<u>48,591</u>	
<u>\$ 173,353</u>	<u>\$ 198,311</u>	<u>\$ 257,726</u>	<u>\$</u>	<u>1,926,730</u>
\$ 23,219	\$ 25,093	\$ -	\$	48,312
<u>-</u>	<u>-</u>	<u>-</u>		123,896
<u>23,219</u>	<u>25,093</u>	<u>-</u>		172,208
				350,854
150,134	173,218			1,145,942
<u>-</u>	<u>-</u>	<u>257,726</u>		257,726
<u>150,134</u>	<u>173,218</u>	<u>257,726</u>		1,754,522
<u>\$ 173,353</u>	<u>\$ 198,311</u>	<u>\$ 257,726</u>	<u>\$</u>	<u>1,926,730</u>

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds**

For The Year Ended June 30, 2005

	Special Revenue			
	Victor Valley Economic Development Authority		Mission Boulevard Joint Redevelopment Project	Cedar Glen Project
	Low - Mod Housing	General VVEDA	Low - Mod Housing	General
Revenues				
Property taxes	\$ 64,053	\$ 320,264	\$ 6,071	\$ -
Investment income	5,966	7,577	412	3,078
Total revenues	70,019	327,841	6,483	3,078
Expenditures				
Current:				
Project expenditures	2,765	34,280	31	56,271
AB 1290 pass-through	-	225,599	-	-
Total expenditures	2,765	259,879	31	56,271
Excess of revenues over expenditures	67,254	67,962	6,452	(53,193)
Other financing uses				
Proceeds from long-term debt			50,000	290,000
Operating transfers in				
Operating transfers out	(10,464)	(25,376)	(10,060)	(51,059)
Total other financing uses	(10,464)	(25,376)	39,940	238,941
Excess of revenues over expenditures and other uses	56,790	42,586	46,392	185,748
Fund balances				
Balances, beginning of year	248,961	637,964	(1,289)	(43,708)
Balances, end of year	\$ 305,751	\$ 680,550	\$ 45,103	\$ 142,040

<u>Capital Projects</u>			
<u>Bloomington Project</u>	<u>Cajon Project</u>		<u>Total Nonmajor Governmental Funds</u>
<u>General</u>	<u>General</u>	<u>RDA Housing</u>	
\$ -	\$ -	\$ -	\$ 390,388
<u>2,278</u>	<u>2,345</u>	<u>5,752</u>	<u>27,408</u>
<u>2,278</u>	<u>2,345</u>	<u>5,752</u>	<u>417,796</u>
89,884	72,477		255,708
<u>-</u>	<u>-</u>	<u>-</u>	<u>225,599</u>
<u>89,884</u>	<u>72,477</u>	<u>-</u>	<u>481,307</u>
<u>(87,606)</u>	<u>(70,132)</u>	<u>5,752</u>	<u>(63,511)</u>
300,000	300,000		940,000
<u>(62,260)</u>	<u>(56,650)</u>	<u>-</u>	<u>(215,869)</u>
<u>237,740</u>	<u>243,350</u>	<u>-</u>	<u>724,131</u>
150,134	173,218	5,752	660,620
<u>-</u>	<u>-</u>	<u>251,974</u>	<u>1,093,902</u>
<u>\$ 150,134</u>	<u>\$ 173,218</u>	<u>\$ 257,726</u>	<u>\$ 1,754,522</u>

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

Notes to Supplementary Information

Budgetary Information

In accordance with the provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the Agency prepares and adopts a budget on or before August 30, for each fiscal year. Budgets are prepared on the modified accrual basis of accounting, except that current year encumbrances are budgeted as expenditures.

In preparing the budget, the Agency utilized a basis of accounting which is different from the basis prescribed by accounting principles generally accepted in the United States of America. The accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual for Governmental Funds presents comparisons of the legally adopted budget and the actual data on a budgetary basis. The following adjustments are necessary to provide a meaningful comparison of the actual results of operations with the budget:

	San Sevaine Project	Low-Mod Housing	RDA Capital Projects
Fund balance – budgetary basis	\$ -	\$ -	\$ -
Outstanding encumbrances for budgeted funds	6,439,148	4,739,518	2,962,990
Other	<u>239,732</u>	<u>(132,380)</u>	<u>873,570</u>
Fund balance – GAAP basis	<u>\$6,678,880</u>	<u>\$4,607,138</u>	<u>\$3,836,560</u>



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Governing Board
Redevelopment Agency of the County of San Bernardino

We have audited the financial statements of the Redevelopment Agency of the County of San Bernardino (the Agency) as of and for the year ended June 30, 2005 and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

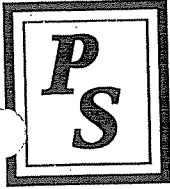
As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

This report is intended solely for the information and use of the governing board, management, and the State Controller, and is not intended to be, and should not be, used by anyone other than these specified parties.

September 22, 2005

Lowell & Spafford, LLP



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

To the Governing Board
The Redevelopment Agency of the County of San Bernardino

We have audited the financial statements of the Redevelopment Agency of the County of San Bernardino for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards and the State Controller's Minimum Audit Requirements for California Redevelopment Agencies

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Redevelopment Agency of the County of San Bernardino. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Redevelopment Agency of the County of San Bernardino's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Redevelopment Agency of the County of San Bernardino are described in Note 1 to the financial statements. In addition, the Agency was required to implement GASB 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, Note 3 to the financial statements.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Agency's significant estimates include property tax receivables and cash equivalents.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Agency that could potentially cause future basic financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current basic financial statements. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Agency's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the governing board and management of the Redevelopment Agency of the County of San Bernardino and is not intended to be, and should not be, used by anyone other than these specified parties.

September 22, 2005

Lowell & Spafford, LLP